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ABSTRACT

This unit on protecting a business, the 18th in a series of 18 units, is part of the first level of a comprehensive entrepreneurship curriculum entitled: A Program for Acquiring Competence in Entrepreneurship (PACE). (Designed for use with secondary students, the first level of PACE introduces students to the concepts involved in entrepreneurship and helps them become aware of entrepreneurship as a career option.) The following topics are covered in the unit: the most common types of business crime, other types of risk faced by entrepreneurs, the need for protection against such risks, and the things that entrepreneurs can do to protect themselves against risks and the losses they may cause. Included in the lesson are instructional text organized in a question-and-answer format, individual and group learning activities, a case study, and assessment questions. (MN)

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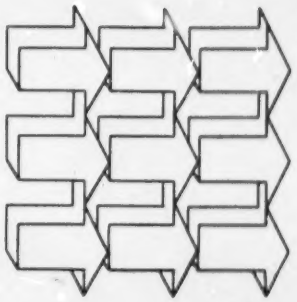

UNIT 18

☑ Level 1
☐ Level 2
☐ Level 3

Protecting the Business

Developed by M. Catherine Ashmore and Sandra G. Pritz

You will be able to:

- **List the most common types of business crime.**
- **List other types of risk faced by entrepreneurs.**
- **Explain the need for protection against such risks.**
- **Discuss what entrepreneurs can do to protect themselves against risks and the losses they may cause.**

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CE 035 690

BEFORE YOU BEGIN. . .

1. Consult the *Resource Guide* for instructions if this is your first PACE unit.

2. Read the Unit Objectives on the front cover. If you think you can meet these objectives now, consult your instructor.

3. Look for these business words as you read this unit. If you need help with their meaning, turn to the Glossary in the *Resource Guide*.

   burglary
   embezzlement
   insurance
   risk
   robbery

PROTECTING THE BUSINESS

WHAT IS THIS UNIT ABOUT?

Once you have started your own business, it is important to protect it against the many problems and situations that might slow its growth. Some entrepreneurs lose large amounts of money each year simply because they don't know how to protect their business.

The focus of this unit is on identifying the risks faced by small businesses. The most common types of business crime are discussed. In addition, other types of risks faced by businesses are identified.

This unit will help you become aware of the risks faced by a small business and understand the need for protection against such risks. Measures that you can take to reduce business losses are also presented.

WHAT IS A RISK?

You face risks every day. You can't cross the street without some danger that you'll be hit by a car. Getting out of bed, driving a car, walking to a friend's home, eating in a restaurant, and opening a business all involve an element of risk. Risk is simply an uncertainty or possibility of loss. Like individuals, businesses need to protect themselves against such losses.

Losing property may be bothersome. However, if your business is destroyed by fire, that is serious. Both events are alike in one way: they cost money. Both are examples of a *risk*—an event that might cause you to lose money.

CAN RISKS BE AVOIDED?

Businesses face many kinds of risks and you should realize that there is no way to avoid all of them. Proper business management procedures can minimize the losses your business may suffer from some risks. But no amount of caution can eliminate risk entirely.

As an entrepreneur you must be able to identify the risks that your business faces and take appropriate preventive measures to minimize losses. In addition, you should be aware of which losses you can protect yourself from by purchasing the appropriate business insurance. Otherwise, a lifetime of work and dreams can be lost in a few minutes.

WHAT ARE THE MOST COMMON TYPES OF BUSINESS CRIME?

One of the most common risks is that of potential loss due to crime. You should know that criminal activity is not limited to robbers and burglars. Your business may also face losses from employee theft as well as customer theft.

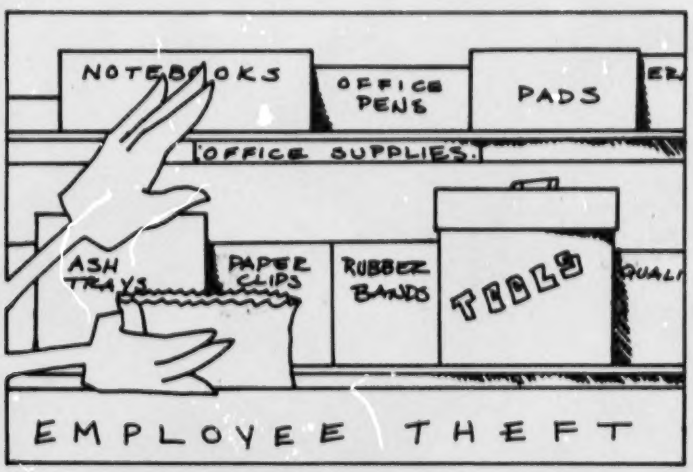
The most common types of business crime are discussed below and include the following:

- Shoplifting
- Passing bad checks
- Employee theft
- Burglary and robbery
- Vendor theft

Shoplifting. Of all business crimes, shoplifting has become one of the most common. Theft of merchandise is estimated to cost billions of dollars each year. Small businesses may be particularly vulnerable to shoplifting because there are usually fewer employees to supervise the business adequately. By establishing effective preventive measures within a business, such as one-way mirrors or electronic tags, you can begin to combat this problem.

Bad check losses. Many businesses accept checks for payment of goods and services. Small businesses are particularly hard hit by losses caused by accepting bad checks. Bad checks include forged checks and checks without sufficient funds behind them. These losses can be greatly reduced if the proper policies and procedures for accepting checks are set up to meet the needs of your business.

Employee theft. More and more business losses are due to employee theft. In fact, many sources report that employee theft is greater than shoplifting by customers. Thefts by employees may include not only inventory items, but also tools, office supplies, and so on. Also, the possibility of embezzlement or theft of business funds exists. For many entrepreneurs, internal security takes a low priority, especially if they are busy with the day-to-day routine of operating a business. Effective personnel policies and procedures can help you create a positive working atmosphere and discourage employee theft.



Burglary and robbery. Burglary and robbery are two of the biggest external threats to an entrepreneur. However, burglary is a much greater threat to businesses than store robberies are. The amount of money taken during robberies is usually very small when compared to losses from burglaries. Prevention of both crimes is based on good cash handling procedures, sound opening and closing routines, and adequate safeguards to protect your building.

WHAT OTHER RISKS DO SMALL BUSINESSES FACE?

An entrepreneur has little or no control over many risks. For example, during recessions, small businesses are particularly vulnerable to loss. This is often due to a failure to build reserves during a preceding period of business prosperity. Other common risks you will face will be discussed below. They include—

a. fire,
b. other natural disasters,
c. bad debt losses,
d. personal injury claims,
e. product liability claims.

Fire hazards. The risk of fire is always present. Fire can totally destroy buildings, equipment, and inventory. Of course, the degree of risk and the amount of potential loss varies with the type of business. For example, businesses handling explosives or flammable materials face a much larger risk. You need to take every possible precaution to prevent fires, but they may still occur. For these reasons, adequate insurance is needed.

Natural disasters. Losses due to floods, hurricanes, tornadoes, hail, and other natural disasters are faced by businesses. You can take certain preventive steps, such as locating the business in an area not subject to flood damage. But there is no way of foreseeing and controlling such losses. Insurance should aid in the protection of your business.

Bad debt losses. If your business sells on credit, it runs the risk of losses on bad debts. All businesses have such losses, but they must be controlled or you may be forced out of business. Insurance is available to protect a business against abnormally high losses, but it will not cover normal losses that are predictable on the basis of past business experience. It is up to you to control such losses.

Personal injury and product liability. You will also face losses due to claims of other people against your business. For example, a customer may be injured by tripping over a loose tile at your business. Another customer may become ill from using a product sold by your firm. In both examples, the customer may bring a lawsuit against your business to recover damages. You should carry insurance against such risks. But remember that you can also minimize these risks. For example, keeping the building cleaned up may prevent most personal injuries.

HOW CAN A BUSINESS MINIMIZE LOSSES DUE TO RISKS?

One way you can minimize losses is to purchase insurance. However, you should realize that insurance does not *eliminate* the risk. Insurance simply transfers the cost of covering the loss from one person or business to a group of individuals or businesses.

Some risks are insurable; others are not. The possibility of losing the results of many years of hard work due to fire, theft, or accident exists. These types of risks can be covered by insurance. Other risks, such as losses caused by changes in business competition or economic conditions, are not insurable. In addition to purchasing insurance, you can minimize losses due to risks by using sound business management practices.

SHOULD A BUSINESS BUY INSURANCE?

Insurance is a protection plan that helps reduce financial risk. By buying insurance, a business joins with many other companies to create a pool of money to pay for losses. Thus, one business's loss is spread among a great number of firms. It is hoped that the business will never have a loss. However, should a loss occur, the business insurance would help to cover it. In addition to preventing financial loss, insurance helps reduce worry, frees money for investment, and helps to gain credit (other businesses may not deal with an uninsured firm).

Some entrepreneurs choose not to purchase insurance. Below are a number of ways that you, as an entrepreneur, can deal with risk without buying insurance or by buying less insurance.

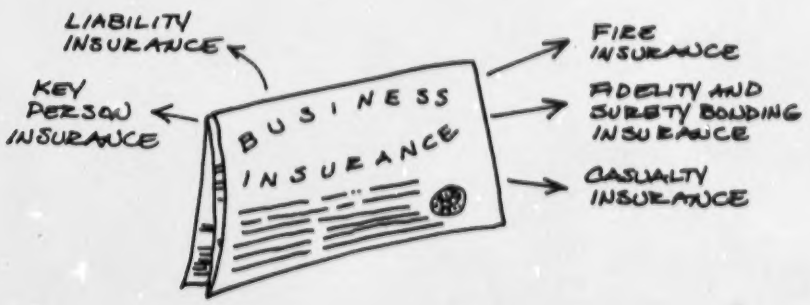
1. You can withstand losses yourself. Some entrepreneurs argue that insurance is too expensive and that it is impossible to cover everything. Sometimes a business will gamble on certain losses and will not have certain types of insurance. For example, an entrepreneur might put a given amount of money each month in a savings account to cover such losses.

2. You can opt for a loss-prevention program. Such programs educate employees on how to reduce losses. You will need to develop guidelines and rules of safety to be followed by all employees.

3. You can transfer risk to others. For example, you can lease property and/or equipment for which the leasing agent carries the insurance.

Many firms have turned to insurance to help them deal with losses. As you begin to identify the risks your business faces, you will probably encounter two major difficulties in selecting insurance. The first will be in selecting appropriate insurance. Ask for a complete description of what your policy covers in language you can understand. Secondly, insurance is becoming more and more difficult to afford. Your insurance broker can tell you exactly what your coverage will cost. Although the cost of your insurance package could be relatively high, the cost of not having one could be higher. You could lose your business and everything else you own if you have to absorb a large loss. It is advisable to select an insurance broker or agent who is familiar with your particular type of business and who can devise an insurance package tailored to your specific needs.

Remember, purchasing insurance is just one part of a complete protection program for your business. Sound business management practices complement such insurance coverage.



ACTIVITIES

Do you feel knowledgeable about what it takes to identify risks that a small business faces? Will you be able to put some of the skills into practice? The following activities will help you experience some of the real-life situations of entrepreneurs.

INDIVIDUAL ACTIVITY

Choose a type of business in which you are interested. On a separate piece of paper, list all the potential risks that this business faces. Identify how you would minimize those risks by sound business management practices. Place a check beside those risks that you feel are insurable.

GROUP ACTIVITY

Divide into groups of three to four students with similar types of business interests. After having identified individually the risks that a particular type of business faces, compare your responses.

What did you not include on your list that other group members identified? Think if there are other risks that none of you identified.

Did you differ on the procedures you would use to minimize the losses from these risks? How did they vary? Are some methods better than others?

Did you agree on which losses are insurable?

CASE STUDY

Jim has decided to open a pick-up and delivery pizza shop called Speedy Pizza in a nearby shopping center. Five stores of various types are located at the center; none are very large. Customers will be able to call in their orders by phone and then pick up their pizzas themselves, or deliveries will be made within a five mile radius of the business.

His hours will be be 11 a.m. until 11 p.m. This means that Speedy Pizza will be open two hours longer than other businesses at the shopping center. Credit cards will not be accepted, although checks will be accepted for the amount of the purchase. .

Jim or his assistant manager usually will be at the shop. Part-time employees will be hired to work during busy lunch and dinner hours and to make deliveries.

Jim will not need fire insurance for the building since he is renting. At this time he has made no plans to purchase any other types of insurance.

Answer these questions on a separate piece of paper.

1. Identify risks Jim faces by opening Speedy Pizza.
2. Are there any common business crimes that Speedy Pizza may be more susceptible to than others?
3. Is Jim's insurance coverage adequate? If not, what additional policies would you suggest that he purchase?

ASSESSMENT

Directions: read the following assessment questions to check your own knowledge of this topic. When you feel prepared, ask your instructor to assess your competency on them.

1. List and discuss the most common types of crime that entrepreneurs face.

2. Identify and discuss risks (other than crime) that entrepreneurs face.

3. Explain why entrepreneurs need to develop a protection plan for their business.

4. Identify two major strategies that entrepreneurs can use to protect themselves against losses from risks.

SOURCES USED TO DEVELOP THIS UNIT

Ely, V.K., and Barnes, M.T. *Starting Your Own Marketing Business.* New York: McGraw-Hill Book Company, 1978.

Loffel, E.W. *Protecting Your Business.* New York: David McKay Company, Inc., 1977.

McCall, S., and Price, K. *Crime Prevention for Small Business.* San Francisco: Bank of America, 1977.

For further information, consult the lists of additional sources in the *Resource Guide.*

Level 1

PACE

Unit 1. Understanding the Nature of Small Business

Unit 2. Determining Your Potential as an Entrepreneur

Unit 3. Developing the Business Plan

Unit 4. Obtaining Technical Assistance

Unit 5. Choosing the Type of Ownership

Unit 6. Planning the Marketing Strategy

Unit 7. Locating the Business

Unit 8. Financing the Business

Unit 9. Dealing with Legal Issues

Unit 10. Complying with Government Regulations

Unit 11. Managing the Business

Unit 12. Managing Human Resources

Unit 13. Promoting the Business

Unit 14. Managing Sales Efforts

Unit 15. Keeping the Business Records

Unit 16. Managing the Finances

Unit 17. Managing Customer Credit and Collections

Unit 18. Protecting the Business

Resource Guide

Instructors' Guide

Units on the above entrepreneurship topics are available at the following three levels:

- Level 1 helps you understand the creation and operation of a business
- Level 2 prepares you to plan for a business in your future
- Level 3 guides you in starting and managing your own business

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